Canada Bread Company, Limited

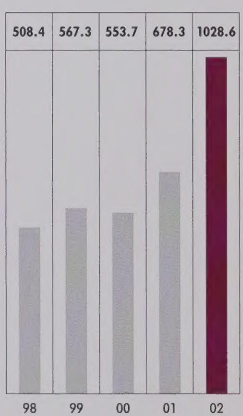
2002 Annual Report

Delivering Results

Financial Highlights

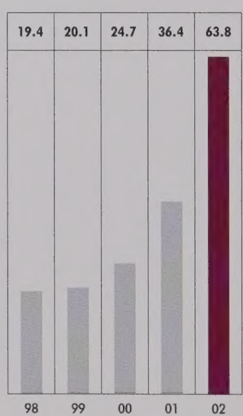
(in thousands of dollars except per share amounts)	**2002**	2001	2000	1999	1998
CONSOLIDATED RESULTS					
Sales	**$ 1,028,571**	$ 678,348	$ 553,660	$ 567,251	$ 508,445
Earnings from operations, before unusual items[(i)]	**63,799**	36,397	24,652	20,111	19,392
Earnings from operations	**63,799**	36,397	24,652	11,761	4,991
Net earnings	**38,697**	20,853	17,240	6,302	2,896
FINANCIAL POSITION					
Net assets[(ii)]	**$ 598,171**	$ 339,462	$ 273,137	$ 270,979	$ 282,940
Shareholders' equity	**304,711**	251,154	235,441	231,160	229,998
Net borrowings	**259,281**	45,778	3,557	16,314	29,071
PER SHARE					
Net earnings	**$ 1.80**	$ 0.97	$ 0.80	$ 0.29	$ 0.14
Net earnings before unusual items	**1.80**	0.97	0.80	0.55	0.58
Dividends	**0.24**	0.24	0.24	0.24	0.24
Book value	**$ 13.29**	$ 11.73	$ 10.99	$ 10.79	$ 10.74

(i) Before taking account of a special earnings charge of $8.4 million in 1999 and $14.4 million in 1998.
(ii) Total assets, less cash and non-interest bearing liabilities.



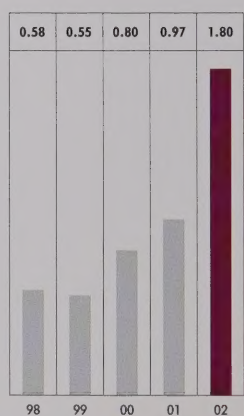
SALES
(millions of dollars)

Sales surpassed the $1 billion mark.



EARNINGS FROM OPERATIONS
Before unusual items
(millions of dollars)

Strong earnings reflects internal growth of 8% as well as contributions from acquisitions.



EARNINGS PER SHARE
Before unusual items
(dollars)

Earnings per share increased 61% over the prior year.

PROFILE

The NEW Canada Bread

CANADA BREAD IS A LEADING PRODUCER AND DISTRIBUTOR OF VALUE-ADDED FLOUR BASED PRODUCTS, INCLUDING FRESH BREAD, ROLLS AND BAGELS, PAR-BAKED BREAD PRODUCTS, FROZEN BAGELS AND DOUGH PRODUCTS, SWEET GOODS, AND SPECIALTY PASTA AND SAUCES. CANADA BREAD IS 73.3% OWNED BY MAPLE LEAF FOODS INC.

OUR BRANDS

CANADA BREAD FRESH

Canada Bread Fresh is a leading bakery in Canada with strong consumer recognized brands.

DEMPSTER'S BREAD
is the leading brand of fresh bread in Canada, delivering taste, nutrition and value under the trademarks: DEMPSTER'S WHOLEGRAINS, DEMPSTER'S BAKERY fresh waffles, DEMPSTER'S ORIGINAL WHITE WITH FIBRE, and DEMPSTER'S FLATBREADS OF THE WORLD.

BEN'S
is the leading bakery brand in Atlantic Canada, delivering on the promise of fresh, soft, locally baked bread.

POM
brand is the market leader of fresh breads and rolls in Québec, covering the full spectrum of consumers' eating occasions with sub-brands such as: ULTRA-MOIST SANDWICH, VILLAGGIO ITALIAN BREADS, FRENCH TOAST, FRESH PAR-BAKE CHAUMIÈRE D'OR, FRESH WAFFLES, and NEW YORK BAGELS.

OLAFSON'S BAKING COMPANY
specializes in world-authentic premium value-added bakery products under the brand names: OLAFSON'S DOUBLERISE, HEALTHY WAY, and OLAFSON'S WORLD AUTHENTIC BAKERS.

CANADA BREAD FROZEN

DEMPSTER'S HOME BAKERY
produces a line of quality, bakery style, frozen breads and rolls that bake up hot and fresh in your oven and complement any meal.

GRACE BAKING
"San Francisco's Award Winning Bread," offers authentic, long fermentation, artisan breads nationally, using innovative recipes created by its founder Glenn Mitchell, winner of the Coupe du Monde de la Boulangerie.

MAISON COUSIN
is the leading brand of par-baked products in Quebec, which are delivered frozen to retailers, baked on the premises and then sold fresh and branded to consumers.

TENDERFLAKE
products include a full range of frozen pie and tart shells and puff pastry.

CANADA BREAD PASTA

OLIVIERI PASTA
produces a wide range of fresh pasta products including Classic Cheese & Pepperoni Sacchettini and Oven Ready Lasagna Sheets.

OLIVIERI SAUCES
deliver the taste of authentic home-made sauces including Rosé, Alfredo and Sun Dried Tomato.

To Our Shareholders

A NEW ORGANIZATIONAL STRUCTURE, STRATEGIC ACQUISITIONS AND CONTINUED STRONG FINANCIAL PERFORMANCE HAVE ESTABLISHED CANADA BREAD AS A GLOBAL BAKERY WITH LEADING BRANDS AND SIGNIFICANT MARKET SHARE ACROSS FRESH AND FROZEN PAR-BAKED PRODUCT LINES.

It is with a great deal of pride that we report the operating results achieved by the Canada Bread team in 2002. The Company achieved a fourth consecutive year of strong financial performance and surpassed the milestone of $1 billion in sales. Operating earnings increased 61% to $63.8 million, while net earnings increased to $38.7 million or $1.80 per share.

The year was equally successful from a strategic and operational perspective, as we embarked on a series of acquisitions and other initiatives that established the Company as a major global bakery with strong, long-term growth potential.

(L) **RICHARD A. LAN**
(R) **MICHAEL H. McCAIN**

The New Canada Bread – a Global Bakery Company

Early in the year, we repositioned Canada Bread for success with a new organizational structure focused on our three core product categories – fresh bakery products, frozen par-baked products, and fresh pasta. This new structure eliminates geographic barriers to growth and aligns our operations more efficiently. These operations made great progress in 2002, recording strong internal sales growth of 8%, excluding the contribution from acquisitions.

In a year of many highlights, the most significant was the acquisition of Maple Leaf Foods' bakery businesses in the U.S. and the U.K. Maple Leaf Bakeries U.S.A. is a leading supplier of frozen, par-baked bread, rolls and bagels in the United States. Maple Leaf Bakery U.K. is the leading bagel producer in the United Kingdom. In addition to its national fresh bread presence, Canada Bread now has an extensive North American manufacturing network in par-baked products and a European platform to support future growth. We have one strategy, driven by one management team that is totally focused on executing successfully against that strategy.

Our combined acquisitions of the past sixteen months have added 20 bakeries, 3,000 employees and more than 10,000 customers across the organization. Canada Bread now competes in new geographic markets and delivers a wider range of products and services to our customers. Supported by our newly acquired frozen par-baked plants in Roanoke, Virginia; Richmond, California; and Oxnard, California, as well as our extensive Canadian facilities, we are now able to service virtually all major population centres across North America within one day's truck travel. This provides us with an important competitive advantage in servicing the needs of a rapidly consolidating market.

With our acquisition of Maple Leaf Bakeries, Canada Bread has assumed the leadership position in the U.S. par-baked market and the U.K. bagel category. Maple Leaf Bakeries U.S.A. pioneered the par-baked bread industry in North America and is totally dedicated to par-baked technology. This sizeable investment in manufacturing puts us on the leading edge of technology in the par-baked industry.

The year was also marked by other acquisitions that positioned our Company as a leader in the fast-growing North American premium and artisan bread markets. In July 2002, we purchased Olafson's Baking Company, a producer of value-added bakery products in Western Canada. Later in the year, through the Maple Leaf Bakeries transaction, we also acquired Grace Baking, one of the leading fresh and frozen artisan bread bakeries in the United States. These acquisitions brought to Canada Bread highly experienced management teams who will support the expansion of these premium products across the Canada Bread network. In April 2002, we also purchased the remaining 40% interest in Ben's Limited, the leading branded fresh bakery in Atlantic Canada, which further solidified our market position in Eastern Canada.

Looking Ahead

While we have strong market share in both fresh and par-baked products, we are keenly aware that we will only maintain and grow market share by continuing to meet our customers' needs and exceeding their expectations for service, quality and innovation. Staying connected to our customers and market trends, and then ensuring we deliver results is our primary goal.

In our Frozen Bakery operation, our three primary markets for par-baked bread – in-store bakeries, the retail frozen food case, and the food service industry – all represent strong growth

opportunities. We will continue to work with retail customers across the continent to convert their stores from scratch baking and frozen dough products to full par-baked operations. In the North American food service market, where chains are increasingly differentiating themselves through higher quality bread products, we have barely scratched the surface of new sales opportunities.

Our Fresh Bakery operation is one of Canada's leading bakeries, supported by a strong distribution and operating network and leading brands including *Dempster's* and *POM*. With a truly national network and expanded product offering, 2003 will be a year of integration, optimizing our distribution model, strengthening our brands and expanding our retail and food service customer relationships. By implementing a strategic purchasing program, our goal is to build more comprehensive supplier relationships that reflect economies of scale. In the first quarter of 2003, we continued a measured plan of reducing production costs by closing a dated bakery in London, Ontario and moving production to existing plants. Coupled with improvements to our distribution system, this is a strong first step in the optimization of our assets. Our continued progress as a Six Sigma company will be a powerful factor in reducing costs in our operations and distribution systems even further, and improving other processes.

In our Pasta operations, we continue to build retail and food service sales through our leading *Olivieri* brand of fresh pasta and sauces. In 2002, we developed a number of exciting new products and grew our relationships with key customers. In 2003, we will continue to drive retail sales, accelerate our food service growth and build a North American sales organization by joining forces with Maple Leaf Bakeries U.S.A.

In the United Kingdom, Maple Leaf Bakery U.K. will continue its innovative advertising campaign targeted at increasing bagel consumption to capitalize on this emerging market. The two U.K plants are also expanding their product lines to include specialty bread products. We will leverage this strong operating base to expand sales into the European market.

Canada Bread continues to benefit significantly from drawing upon the scale and depth of the Maple Leaf Foods organization. In a year marked by significant activity, we were able to access a wide range of expertise and support, from tax, treasury and M&A support to Six Sigma, engineering and leadership development. Going forward we will continue to benefit from the management systems and experience at Maple Leaf Foods to drive profitable and sustainable growth.

On behalf of the Board of Directors, we wish to thank our employees, dealers and customers for contributing to such a strong year. We would also like to thank our shareholders for approving our acquisition of Maple Leaf Bakeries. You have given us the tools to build a global bakery company and we fully intend to reward your confidence. We begin 2003 with high-quality bakery assets, brand leadership, financial strength and an exceptional team. Canada Bread has the recipe for success!

MICHAEL H. McCAIN
Chairman of the Board

RICHARD A. LAN
President and Chief Executive Officer

IN THE COMING YEAR, WE INTEND TO BUILD ON OUR MOMENTUM WITH THE FOLLOWING INITIATIVES AIMED AT GROWING OUR MARKET SHARE AND EXCEEDING CUSTOMER EXPECTATIONS FOR QUALITY, SERVICE AND INNOVATION:

- WORK WITH OUR RETAIL AND FOOD SERVICE CUSTOMERS IN NORTH AMERICA TO CONVERT THEIR SCRATCH AND FROZEN DOUGH OPERATIONS TO PAR-BAKED
- INTEGRATE RECENT ACQUISITIONS, STREAMLINE DISTRIBUTION AND OPTIMIZE OUR MANUFACTURING ASSETS TO REALIZE GREATER EFFICIENCIES AND COST SAVINGS
- CONTINUE OUR PROGRESS AS A SIX SIGMA OPERATING COMPANY, WHILE STRENGTHENING AND BROADENING OUR MANAGEMENT TEAM THROUGH OUR LEADERSHIP EDGE INITIATIVES
- LEVERAGE OUR MARKET POSITION IN THE U.K. TO EXPAND SALES INTO EUROPE

A Year of Growth

FISCAL 2002 WAS A MILESTONE YEAR FOR CANADA BREAD IN WHICH IT ACHIEVED RECORD FINANCIAL PERFORMANCE AND SECURED ITS STATUS AS A WORLD-CLASS GLOBAL BAKERY.

APRIL 4: ORGANIZATIONAL CHANGES TO POSITION THE COMPANY FOR GREATER GROWTH

Canada Bread announces changes to senior management team and corporate structure. The Company will focus on its three core markets: Fresh Bakery, Frozen Bakery and Pasta. Richard Lan is named President and CEO and Michael H. McCain is named Chairman.

APRIL 11: ACQUISITION OF REMAINING INTEREST IN BEN'S BAKERY

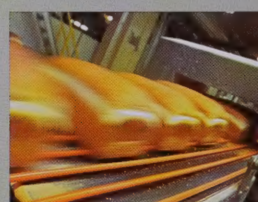
Completes the purchase of the remaining 40% stake in Ben's Limited, a leading Atlantic Canada bakery with the number one brand in the Maritimes. Canada Bread now wholly owns all of its bakery assets in Quebec and Atlantic Canada.

JULY 18: ACQUISITION OF OLAFSON'S BAKING COMPANY

Canada Bread acquires Olafson's of Delta, British Columbia. With annual sales of $30 million, Olafson's is a leading producer and supplier of premium value added bakery products including grain breads, organic breads, flat breads, sweet goods, breakfast and snack baked goods throughout Western Canada.

DECEMBER 27: ACQUISITION OF MAPLE LEAF BAKERIES

Canada Bread and Maple Leaf Foods announce an agreement in principle for Canada Bread to purchase all of Maple Leaf Foods' other bakery operations, including all of its bakery operations in the United States and the United Kingdom, and the recently purchased Grace Baking Company. Maple Leaf Bakeries U.S.A. is the leading manufacturer of frozen par-baked breads, rolls and bagels in the U.S., and Maple Leaf Bakery U.K. is the largest bagel producer in the United Kingdom. Grace Baking is the leading fresh and frozen artisan bakery in the San Francisco area, producing nutritious and innovative products with all-natural ingredients.

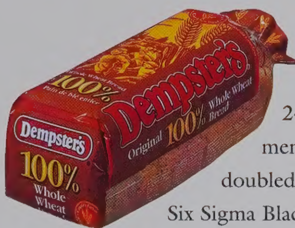


DECEMBER 10: CANADA BREAD PROPOSED $106 MILLION PRIVATE EQUITY PLACEMENT

Maple Leaf Foods offers to purchase four million common shares from Canada Bread at a price of $26.50 per share. The transaction is completed in January 2003 for proceeds of $106 million.

Our Operations

FISCAL 2002 MARKED THE CREATION OF AN INTEGRATED GLOBAL BAKERY WITH MARKET LEADERSHIP IN THREE CORE AREAS OF ACTIVITY: FRESH BAKERY, FROZEN BAKERY AND FRESH PASTA.



FRESH BAKERY

Our Fresh Bakery operations made continued progress on many fronts in 2002. We further developed our brand equity by introducing new products such as the innovative *Dempster's* and *POM* fresh waffles and *POM* French Toast breads. We also made significant market share gains, with *Dempster's* achieving the leading branded share of all fresh breads in Canada. We continue to meet consumer demand for new, value-added bakery products that offer convenience and high quality.

The integration of Multi-Marques Inc., our Quebec operation acquired in 2001, surpassed our earnings and synergy targets. With the acquisition of the remaining 40% of Ben's Limited bakery operations in Atlantic Canada and Olafson's Baking Company in British Columbia, we have built a coast-to-coast fresh bakery network. Through our Leadership Edge initiatives, we also topgraded three executive and 24 middle management positions, and doubled the number of Six Sigma Black Belts to eight.

Our Fresh Bakery operations have a number of objectives for the coming year, including:

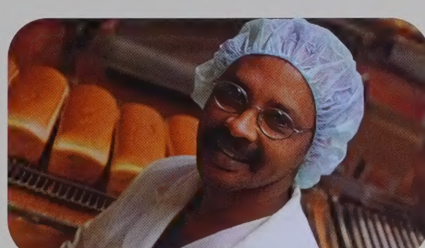
- integrating the acquisitions of the past 18 months;
- optimizing our manufacturing and distribution systems;
- new product innovation; and
- implementing a strategic purchasing program.

Canada Bread is committed to delivering customer value. Our franchise network of 1,500 dealers not only deliver products, but stock shelves, create the right retail mix, provide quality control and assist with promotions. We will further enhance our customer service in 2003 by optimizing our distribution model, upgrading our order management technology and increasing production of Extended Shelf Life products to extend product freshness.

DISTRIBUTING WITH A COMPETITIVE EDGE

CANADA BREAD MAINTAINS AN EXTENSIVE DISTRIBUTION SYSTEM DESIGNED TO SUPPLY MOST OF THE SIGNIFICANT POPULATION CENTRES ACROSS NORTH AMERICA WITHIN ONE DAY. OUR BROAD GEOGRAPHIC REACH IS IDEALLY SUITED TO MEET THE NEEDS OF THE RAPIDLY CONSOLIDATING RETAIL AND FOOD SERVICE MARKET.

- DISTRIBUTION SYSTEM WITH BOTH FRESH AND FROZEN CAPABILITIES
- THOUSANDS OF CUSTOMERS SERVICED FROM MORE THAN 1,000 ROUTES & DISTRIBUTORS
- RECENT ACQUISITIONS PROVIDE FURTHER OPPORTUNITIES TO ENHANCE DISTRIBUTION EFFICIENCIES



THE BENEFITS OF PAR-BAKED BREAD

PAR-BAKED BREAD IS BREAD BAKED TO WITHIN 90% OF COMPLETION, QUICK FROZEN AND SHIPPED TO MARKET, WHERE A FINAL 12 TO 15 MINUTES IN THE CUSTOMERS' OVEN DELIVERS FRESH BAKED PRODUCTS TO THE CONSUMER. THE PAR-BAKED MARKET IS AMONG THE FASTEST GROWING IN THE BAKERY INDUSTRY. AS THE LEADING NORTH AMERICAN PAR-BAKED BAKERY, WE ALLOW CUSTOMERS TO:

- PRODUCE FRESH, HOT BREAD IN JUST MINUTES INSTEAD OF HOURS
- CYCLE BAKE THROUGHOUT THE DAY TO REACH SHOPPERS AT PEAK PERIODS
- REDUCE EQUIPMENT, WASTE AND IN-STORE BAKING COSTS
- IMPROVE PRODUCT CONSISTENCY AND QUALITY
- SPECIALIZE PRODUCTS TO BUILD CONSUMER LOYALTY

THE EVOLUTION FROM SCRATCH BAKING TO PAR-BAKING PRESENTS A SIGNIFICANT LONG-TERM OPPORTUNITY FOR CANADA BREAD, NOW THE CLEAR MARKET LEADER AND THE FOREMOST INNOVATOR IN THE PAR-BAKED INDUSTRY IN NORTH AMERICA.

FROZEN BAKERY

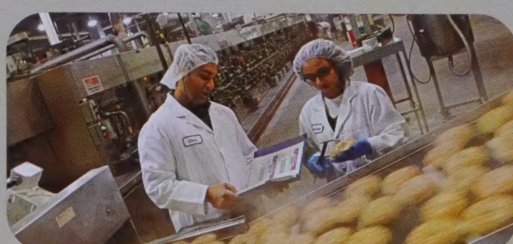
In 2002, our Frozen Bakery operations continued to benefit from the inherent advantages that par-baked products offer our customers – less waste, greater convenience and better quality. In addition, demographic trends continue to drive demand, as consumers look for healthy, value-added and innovative food solutions that meet their busy schedules.

The frozen par-baked business has three primary markets: in-store bakeries; the retail frozen food case where par-baked products can be purchased to take home and bake; and the food service industry, which includes restaurants, institutions and quick-service restaurant outlets. All of these markets represent strong growth opportunities for Canada Bread. We are working with our retail customers to convert their stores from scratch baking and frozen dough to par-baked operations and to market more branded, frozen par-baked products direct to consumers.

For customers in the food service industry, we design specialized products that meet their specific needs, resonate with their customers and differentiate their restaurant or fast food outlets from the competition.

The key objective for the coming year is to continue to grow our leading share of the retail par-baked market, while converting customers in the high-growth food service market to this model, particularly in the United States. In Canada, we will leverage our existing strong food service relationships to achieve further growth, while working with retailers to accelerate conversion of their in-store bakeries from scratch and frozen dough to par-baked breads.

To achieve these goals requires us to deliver significant consumer research and marketing support, in order to help our customers educate consumers on the many varieties and uses of specialty bread products. Our goal is to



NORTH AMERICAN PASTA AND U.K. BAGEL SALES BOTH ENJOYED STRONG GAINS DURING THE YEAR, WHILE NEW PRODUCT INTRODUCTIONS, INCLUDING EXCITING NEW FLAVOURS AND SPECIALTY ARTISAN BREADS, SHOULD FUEL GROWTH AND CONTRIBUTE TO FURTHER EXPANSION IN THE YEARS TO COME.

have consumers increasingly view premium par-baked bread products as a convenient and essential part of the evening dining experience.

FRESH PASTA

Sales of *Olivieri* Pasta increased significantly in 2002, growing market share for both fresh pasta products and sauces. *Olivieri* also increased sales and introduced new products into the U.S. *Olivieri* now offers a wide variety of unique fresh pastas, such as Classic Cheese & Pepperoni Sacchettini and Medallion Ravioli with Flax seed, and fresh sauces such as Pesto, Sun-Dried Tomato and Rosé. These products deliver consumers the taste of home-made pasta and authentic sauces with only minutes of preparation required. In 2002, a new line of dips was also launched for the summer season.

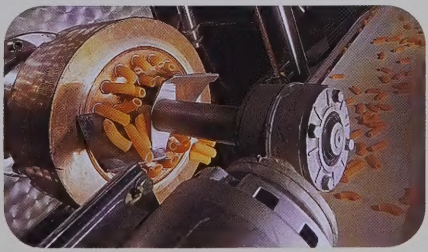
In 2003, we will drive fresh pasta and sauce sales by building a North American selling organization, supported by the launch of new advertising and promotional campaigns, and increase penetration of targeted grocery accounts.

MAPLE LEAF BAKERY U.K.

Through the acquisition of Maple Leaf Bakeries, Canada Bread now operates two plants in the United Kingdom, where we are the largest private-label and branded bagel manufacturer. In the U.K., bagel consumption averages only 1.7 bagels per person per year, compared with 25 among North Americans. We expect U.K. bagel consumption to rise significantly over the next several years, and we will capitalize on this trend by leveraging the strength of our leading *New York Bagel* brand. We will also expand market share by producing other specialty products for the U.K. and European market.

THE ACQUISITION OF GRACE BAKING PROVIDES CANADA BREAD WITH A LEADING BRAND OF FRESH AND FROZEN ARTISAN BREADS IN THIS PREMIUM, HIGH-GROWTH SEGMENT OF THE MARKET.

- ARTISAN BREADS ARE PREMIUM GOURMET BREADS AND ROLLS DISTINGUISHED BY THEIR ENHANCED FLAVOUR AND CHEWY CRUSTS
- FROZEN ARTISAN BREAD IS ONE OF THE FASTEST GROWING SEGMENTS OF THE BAKERY INDUSTRY
- A DELICIOUS AND NUTRITIOUS ASSORTMENT OF FROZEN PAR-BAKED ARTISAN BREADS ALLOWS OUR CUSTOMERS TO DELIVER UNIQUE PRODUCTS WITH CONSISTENT FRESHNESS AND QUALITY



OVERVIEW

Following is a discussion of the results of the Company for the year ended December 31, 2002.

In accordance with changes in generally accepted accounting principles, effective January 1, 2002 the company no longer amortizes goodwill, resulting in a positive effect on 2002 reported earnings. The effect of this is explained more fully in note 2(g) to the Company's financial statements. All comparative percentage increases noted herein are after taking account of this change. During 2002, the Company completed the transitional goodwill impairment test for all reporting units in accordance with generally accepted accounting principles. The results of this test have indicated there is no impairment to the book value of goodwill

Sales for the year of $1,028.6 million increased 52% from $678.3 million last year, reflecting the impact of acquisitions and strong internal growth in the bakery operations. Excluding the contribution from acquisitions, sales increased by 8%.

Earnings from operations were $63.8 million, an increase of 61% from $36.4 million last year ($39.5 million before goodwill amortization). The increase was due to strong performance in the fresh and frozen bakery operations, continued operational improvements and strong contribution from Multi-Marques Inc., which was purchased in the fourth quarter of 2001.

The Company's effective tax rate decreased to 35.8% in 2002 compared to 41.9% in 2001. *The Company's income tax expense is discussed in note 10 to the consolidated financial statements.*

OTHER INCOME

Other income decreased from $1.3 million in 2001 to $0.3 million in 2002. In 2001, the Company's share of earnings from its 25% investment in Multi-Marques of $1.4 million was equity accounted and included in Other Income until October 12, 2001, when the remaining 75% of the shares were purchased, from which date the operations of Multi-Marques were consolidated.

ACQUISITIONS

In 2001, the Company acquired the remaining 75% interest in Multi-Marques Inc. to hold 100%, and in April 2002, the Company acquired the remaining 40% of the shares of Ben's Bakery Limited in Atlantic Canada. In July 2002, the Company acquired all of the outstanding shares of Olafson's Baking Company Inc. ("Olafson's") of Delta, British Columbia. The initial purchase price was $11.5 million. Additional consideration, up to a maximum of $11.0 million, may be payable depending on the attainment of certain financial targets, up until February 28, 2004. The results of operations of Olafson's have been included since the date of acquisition.

In October 2002, Maple Leaf Foods acquired the shares of Grace Baking Company of San Francisco, California. In December 2002, Canada Bread purchased all of Maple Leaf's U.S. and U.K. bakery operations, including Grace Baking Company ("Maple Leaf Bakery Group"), for approximately $262.0 million, inclusive of debt assumption. These operations have not been reflected in the consolidated statement of earnings for 2002, but are included in the consolidated balance sheet as at December 31, 2002. The Company has not yet completed the determination of fair values of the individual assets and liabilities acquired, or its restructuring and integration plans for the operations acquired in the Olafson's and Maple Leaf Bakery Group acquisitions. Accordingly, the allocation of the purchase cost to the assets and liabilities acquired is preliminary and will change as restructuring plans are finalized. No restructuring costs have been accrued in the preliminary purchase accounting included in these financial statements, or accrued with respect to any restructuring of existing Canada Bread operations that may result from the integration plans, when finalized.

Details of assets and liabilities acquired in these acquisitions are set out in note 13 to the consolidated financial statements.

CASH FLOWS

Cash flow from operating activities of $92.2 million compared to $94.6 million in 2001. Higher earnings contributed to the strong cash flow in 2002, although this was offset by additional securitization of assets of $28 million in 2001 that did not reoccur in 2002 which reduced the contribution from working capital. During the year, the Company invested $20.7 million in capital assets, compared to $11.7 million last year. In 2002, the Company spent $288.9 million on net assets of acquired businesses compared to $105.2 million last year.

CAPITAL RESOURCES AND LIQUIDITY

Canada Bread finances its normal operating activities primarily from operating cash flow. To provide it with further liquidity, the Company and its subsidiaries had aggregate credit facilities of $148 million at December 31, 2002 with major Canadian banks.

In addition to bank credit facilities, to finance the acquisition of Maple Leaf Bakeries, the Company established a $215 million revolving debt facility with Maple Leaf Foods Inc. in December, 2002. The terms of this facility, including its revolving nature, interest rates and covenants, are substantially similar to those available to Canada Bread through its syndicated bank facility. The facility matures one year from the date of drawing but may be extended, subject to certain conditions, for two additional one-year periods at the option of Canada Bread. The facility permits prepayments without penalties and permits Canada Bread to repay up to $20 million through the issuance of common shares of Canada Bread directly to Maple Leaf. In January 2003, Canada Bread repaid $100 million of this facility from the proceeds of an equity offering and the available amount of the facility was permanently reduced to $109 million. In addition, in December, Canada Bread issued a short-term promissory note to Maple Leaf in the amount of $75 million. This promissory note was repaid in January 2003.

Management is of the opinion that current sources of funding provide the Company with sufficient liquidity to finance ongoing business requirements and its planned capital expenditure program.

RISK MANAGEMENT

The Company has financial risk exposure to varying degrees relating to interest rates, foreign exchange and fluctuating flour prices. When considered appropriate, these exposures may be managed by the use of derivative financial instruments, including interest rate swaps, currency contracts, commodity futures and forward purchase or sale contracts. *Information on the Company's material year-end derivative hedge positions is set out in note 6 to the consolidated financial statements.*

In common with most businesses, the Company faces a certain degree of credit risk arising from sales of products on credit terms to customers. To manage credit risk, credit limits and terms of sale are established and monitored on a regular basis.

CHANGE IN ACCOUNTING POLICIES

Refer to note 2(l) to the consolidated financial statements.

DIVIDENDS

Dividends paid in 2002 equaled $0.24 per share (2001 – $0.24), resulting in cash payments of $5.1 million (2001 – $5.1 million).

ENVIRONMENT

Canada Bread is conscious of its environmental responsibilities. Each of its businesses operates within the framework of an environmental policy, "Our Environmental Commitment", which was updated in 2002 and approved by the Board of Directors' Environment, Health and Safety Committee. The Company's environmental program is monitored on a regular basis by the Environment, Health and Safety Committee,

with compliance with regulatory requirements specifically monitored by internal environmental specialists and independent, external environmental analyses. The Company continues to invest in environmental infrastructure related to water, waste and air emissions to ensure that environmental standards continue to be met, while implementing procedures to minimize the impact of operations on the environment. Expenditures related to current environmental requirements are not expected to have a material effect on the financial position or earnings of the Company.

RELATED PARTY TRANSACTIONS

Maple Leaf Foods Inc. provides certain management and other services to Canada Bread. The Company's Audit Committee reviews these arrangements on a regular basis. *See note 12 to the consolidated financial statements for further details.*

SUBSEQUENT EVENTS

On February 4th, 2003 Canada Bread announced the closure of its London, Ontario fresh baking facility. The Company expects that the costs of closure will result in a special charge to earnings in the first quarter of 2003 of approximately $5 million before tax (approximately $3 million after tax).

On January 28th, 2003 Canada Bread issued 4 million shares to Maple Leaf from treasury at $26.50 per share in a private placement transaction. The $26.50 price represents a 24% premium to the average closing price for Canada Bread common shares for the 10 days preceding the announcement. Proceeds from the financing of $106 million have been used to pay down debt under the Company's existing credit facility with Maple Leaf Foods. As a result of this payment, this credit facility was permanently reduced from $215 million to $109 million. Prior to this transaction, Maple Leaf Foods owned 68.3% of the outstanding common shares. After the issuance of shares, Maple Leaf Foods owns approximately 73.3% of the outstanding common shares.

QUARTERLY FINANCIAL INFORMATION

The following is a summary of unaudited quarterly financial information for the years ended December 31, 2002 and 2001 (millions of dollars except per share amounts). In accordance with changes in generally accepted accounting principles, effective January 1, 2002, the company no longer amortizes goodwill, resulting in a positive impact on 2002 reported earnings. The 2001 numbers in this table have been re-stated to take into account this change.

(millions of dollars, except per share amounts)	1st Qtr. 2002	2nd Qtr. 2002	3rd Qtr. 2002	4th Qtr. 2002	Total 2002
Sales	$ 231	$ 256	$ 273	$ 269	$ 1,029
Net earnings	6	11	12	10	39
Net earnings per share	$ 0.30	$ 0.47	$ 0.55	$ 0.48	$ 1.80

	1st Qtr. 2001	2nd Qtr. 2001	3rd Qtr. 2001	4th Qtr. 2001	Total 2001
Sales	$ 137	$ 148	$ 155	$ 238	$ 678
Net earnings	4	5	7	8	24
Net earnings per share	$ 0.19	$ 0.21	$ 0.33	$ 0.39	$ 1.12

Management's Statement of Responsibility

Management recognizes its responsibility for conducting the Company's affairs in the best interests of all of its shareholders. The consolidated financial statements and related information in the annual report are the responsibility of management. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles which involve the use of judgment and estimates in applying the accounting principles selected. Other financial information in the annual report is consistent with that in the consolidated financial statements.

The Company maintains systems of internal controls which are designed to provide reasonable assurance that accounting records are reliable and to safeguard the Company's assets. The Company's independent auditors, KPMG LLP, Chartered Accountants, have audited and reported on the Company's consolidated financial statements. Their opinion is based upon audits conducted by them in accordance with Canadian generally accepted auditing standards to obtain reasonable assurance that the consolidated financial statements are free of material misstatement.

The Audit Committee of the Board of Directors, all of whom are independent of the Company or any of its affiliates, meets periodically with the independent external auditors, the internal auditors and management representatives to review the internal accounting controls, the consolidated quarterly and annual financial statements and other financial reporting matters. Both the internal and independent external auditors have unrestricted access to the Audit Committee. The Audit Committee reports its findings and makes recommendations to the Board of Directors.

RICHARD A. LAN
President and
Chief Executive Officer

MICHAEL H. VELS
Chief Financial Officer

Auditors' Report

We have audited the consolidated balance sheets of Canada Bread Company, Limited as at December 31, 2002 and 2001 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Toronto, Canada,
February 19, 2003

CONSOLIDATED BALANCE SHEETS

(in thousands of Canadian dollars) As at	December 31, 2002	December 31, 2001
ASSETS		
Current Assets:		
Cash	**$ 12,389**	$ —
Accounts receivable (note 3)	**59,911**	25,211
Due from related company	**—**	6,461
Inventories	**30,512**	21,133
Future tax asset (note 10)	**5,274**	3,094
Prepaid expenses	**2,490**	2,739
	110,576	58,638
Property and equipment (note 4)	**334,606**	251,170
Other long-term assets	**3,098**	6,307
Goodwill and other intangibles	**346,083**	126,980
	$ 794,363	$ 443,095
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Bank indebtedness	**$ —**	$ 665
Accounts payable and accrued charges	**157,578**	95,061
Due to parent company	**13,078**	—
Dividends payable	**1,285**	1,285
Income and other taxes payable	**11,862**	7,287
Current portion of long-term debt (note 5)	**7,954**	8,838
	191,757	113,136
Long-term debt (note 5)	**263,716**	36,275
Future tax liability (note 10)	**34,179**	38,182
Minority interest	**—**	4,348
Shareholders' equity (note 7)	**304,711**	251,154
	$ 794,363	$ 443,095

Contingencies and commitments (note 14)

Subsequent events (notes 5 and 15)

See accompanying notes to consolidated financial statements.

On behalf of the Board

Richard A. Lan
Director

John L. Bragg
Director

CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands of Canadian dollars, except per share amounts) Years ended	December 31, 2002	December 31, 2001
Sales	$ 1,028,571	$ 678,348
Earnings from operations	$ 63,799	$ 36,397
Other income (note 8)	285	1,312
Earnings before interest and income taxes	64,084	37,709
Interest expense (note 9)	3,766	1,324
Earnings before income taxes	60,318	36,385
Income taxes (note 10)	21,564	15,261
Earnings before minority interest	38,754	21,124
Minority interest	57	271
Net earnings	$ 38,697	$ 20,853
Basic and diluted earnings per share	$ 1.80	$ 0.97

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(in thousands of Canadian dollars) Years ended	December 31, 2002	December 31, 2001
Retained earnings, beginning of year	$ 214,189	$ 198,476
Net earnings	38,697	20,853
Dividends declared ($0.24 per share; 2001 – $0.24 per share)	(5,140)	(5,140)
Retained earnings, end of year	$ 247,746	$ 214,189

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of Canadian dollars) Years ended	December 31, 2002	December 31, 2001
CASH PROVIDED BY (USED IN):		
Operating Activities		
Net earnings	$ 38,697	$ 20,853
Items not affecting cash:		
Depreciation	28,506	20,027
Amortization	—	3,135
Minority interest	57	271
Future income taxes	108	(138)
Undistributed earnings of an associated company	—	8,986
Other	(295)	(1,629)
Changes in non-cash operating working capital	25,112	43,105
	92,185	94,610
Financing Activities		
Dividends paid	(5,140)	(5,140)
Increase in long-term debt	333,456	44,734
Decrease in long-term debt	(98,676)	(15,023)
	229,640	24,571
Investing Activities		
Additions to property and equipment	(20,678)	(11,729)
Proceeds from sale of property and equipment	817	313
Purchase of net assets of businesses, net of cash acquired (note 13)	(288,910)	(105,150)
	(308,771)	(116,566)
Increase in cash and cash equivalents	13,054	2,615
Cash and cash equivalents, beginning of year	(665)	(3,280)
Cash and cash equivalents, end of year	$ 12,389	$ (665)
Supplemental cash flow information:		
Interest paid	$ 3,722	$ 2,038
Income taxes paid	18,464	9,337

See accompanying notes to consolidated financial statements.

Years ended December 31, 2002 and 2001
(Tabular amounts in thousands of Canadian dollars, except share amounts)

1. THE COMPANY

Canada Bread Company, Limited ("Canada Bread" or the "Company") and its subsidiaries operate in the bakery industry across North America and internationally. Its principal business is the manufacture and sale of bakery and pasta products, including fresh bread and rolls, bagels and par-baked bread. Canada Bread was 68.3% owned by Maple Leaf Foods Inc. ("Maple Leaf") as at December 31, 2002. Maple Leaf's ownership interest increased to 73.3% in January 2003 (note 15).

2. SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies of the Company. The preparation of periodic financial statements necessarily involves the use of estimates and approximations. Should the underlying assumptions change, the actual amounts could differ from those estimates.

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. The Company had a 25% interest in Multi-Marques Inc., a Quebec-based bakery business, which was previously accounted for using the equity method. In the fourth quarter of 2001, the Company acquired the remaining 75% of Multi-Marques Inc. (note 13), and its results of operations have been consolidated from the date of acquisition.

(b) Translation of foreign currencies

The accounts of foreign subsidiaries, associated companies and joint ventures are translated into Canadian dollars using the exchange rate in effect at the year end for assets and liabilities and the average exchange rates for the year for revenue and expenses. Exchange gains or losses on translation will be deferred and included as a separate component in shareholders' equity until realized.

Other monetary assets and liabilities denominated in foreign currencies are translated at year-end exchange rates. Exchange gains and losses are recognized in current earnings.

Where the Company enters into forward exchange contracts to hedge the principal and interest on debt payable in foreign currencies, unrealized losses or gains on such contracts are matched with exchange gains or losses on the debt payable.

(c) Hedging arrangements

The Company may enter into hedging arrangements to manage its exposure to currency, commodity price and interest rate fluctuations. The gains and losses on these hedging instruments are recognized in the consolidated financial statements in the same period and are matched with the same financial statement category as the item to which the hedged position relates. Any accrued amounts receivable and payable under the terms of such contracts are included in accounts receivable and accounts payable, respectively.

(d) Inventories

Inventories are valued at the lower of cost and net realizable value, with cost being determined substantially on a first-in, first-out basis.

(e) Property and equipment

Property and equipment are recorded at cost, including, where applicable, interest capitalized during the construction or development period.

Depreciation is calculated using the straight-line basis at the following rates, which are based on the expected useful lives of the assets:

Buildings	2½% – 5%
Machinery and equipment	10% – 33⅓%

(f) Deferred financing costs

Costs incurred to obtain long-term debt financing are amortized over the term of such debt and are included in interest expense for the year.

(g) Goodwill

The excess of the purchase price over the estimated fair value of the identifiable net assets represents goodwill. Goodwill was amortized on a straight-line basis over periods ranging from 10 years to 40 years in 2001.

In September 2001, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook Sections 1581, Business Combinations and 3062, Goodwill and Other Intangible Assets. The new standards required the purchase method of accounting for business combinations and required

that goodwill no longer be amortized but instead be tested for impairment at least annually. The Company has adopted these new standards as of January 1, 2002 and has discontinued amortization of all existing goodwill. Goodwill arising on business combinations completed after June 30, 2001 has not been amortized.

Effective January 1, 2002, the Company had unamortized goodwill of $127 million, which is no longer being amortized. This change in accounting policy has not been applied retroactively and the amounts presented for prior periods have not been restated for this change. To enable consistent comparison to prior periods, the following selected pro forma financial information is provided for 2001, assuming no goodwill amortization for 2001:

	2002	2001
Earnings from operations as reported	$ 63,799	$ 36,397
Add back goodwill amortization	—	3,135
Pro forma earnings from operations	$ 63,799	$ 39,532
Pro forma net earnings	$ 38,697	$ 23,981
Earnings per share as reported (basic and diluted)	$ 1.80	$ 0.97
Pro forma earnings per share (basic and diluted)	$ 1.80	$ 1.12

(h) Income taxes

The Company uses the asset and liability method of accounting for income taxes. Accordingly, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. In addition, the effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the enactment or substantive enactment date.

(i) Employee benefit plans

The Company accrues obligations under employee benefit plans and the related costs, net of plan assets. The cost of pensions and other retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. Past service costs arising from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment. The net actuarial gain (loss) is amortized over the average remaining service period of active employees.

(j) Statement of cash flows

Cash and cash equivalents are defined as cash and short-term securities with maturities less than 90 days at the date of acquisition, less bank indebtedness.

(k) Comparative figures

Certain 2001 comparative figures have been reclassified to conform with the financial statement presentation adopted in 2002.

(l) Recently issued accounting pronouncements

(i) Impairment of Long-Lived Assets

In December 2002, the CICA issued Handbook Section 3063, Impairment of Long-Lived Assets and revised Section 3475, Disposal of Long-Lived Assets and Discontinued Operations. Section 3063 requires that an impairment loss be recognized when the carrying amount of an asset to be held for use exceeds the sum of the undiscounted cash flows expected from its use and disposal; the impairment loss recognized is the amount by which the carrying amount of the asset exceeds its fair value. Section 3475 requires that assets classified as held-for-sale be measured at the lower of their carrying amounts or fair value, less costs to sell. The Company intends to adopt these standards as of January 1, 2003.

(ii) Hedging Relationships

Accounting Guideline 13, Hedging Relationships establishes new criteria for hedge accounting and will apply to all hedging relationships in effect on or after January 1, 2004. On January 1, 2004, the Company will re-assess all hedging relationships to

determine whether the criteria are met or not and will apply the new guidance on a prospective basis. To qualify for hedge accounting, the hedging relationship must be appropriately documented at the inception of the hedge and there must be reasonable assurance, both at the inception and throughout the term of the hedge, that the hedging relationship will be effective. Effectiveness requires a high correlation of changes in fair values or cash flows between the hedged item and the hedging item. The Company is in the process of formally documenting all hedging relationships and expects that all transactions will meet the new hedging accounting criteria.

3. ACCOUNTS RECEIVABLE

Under revolving securitization programs, the Company has sold, with limited recourse, certain of its trade accounts receivable to financial institutions. The Company retains servicing responsibilities and assumes limited recourse obligation for delinquent receivables. At year end, trade accounts receivable amounting to $50 million (2001 – $48 million) had been sold under these programs.

4. PROPERTY AND EQUIPMENT

	2002	2001
Land	$ 25,337	$ 22,389
Buildings	123,496	101,634
Machinery and equipment	361,698	254,956
Construction in progress	13,175	4,069
	523,706	383,048
Less accumulated depreciation	189,100	131,878
	$ 334,606	$ 251,170

5. LONG-TERM DEBT

	2002	2001
Revolving term facility (i)	$ 9,500	$ 30,000
Demand term loans	—	6,742
Revolving term facility (ii)	6,600	6,600
Revolving term facility (iii)	198,500	—
Note Payable (iv)	75,000	—
Other (v)	1,363	1,596
Obligations under capital leases	707	175
	291,670	45,113
Less:		
Current portion	7,954	8,838
Portion classified as equity (iii)	20,000	—
	27,954	8,838
	$ 263,716	$ 36,275

(i) In July 2001, Canada Bread established a debt facility with a syndicate of banks to finance the acquisition of Multi-Marques Inc. and provide liquidity for general corporate purposes. The facility is structured as follows:

(a) a $99 million revolving/reducing term facility, maturing in 2005.

(b) a committed four-year $20 million revolving facility, which matures in 2005.

These facilities can be drawn in either Canadian or U.S. dollars and bear interest based on Bankers' Acceptance rates for Canadian dollar loans and LIBOR for U.S. dollar loans. At December 31, 2002, $15.7 million (2001 – $36.0 million) was utilized under this facility (including drawings of $6.2 million in respect of letters of credit).

(ii) The Company has available a revolving term facility in the amount of $6.6 million, which bears interest based on Bankers' Acceptance rates. The facility is subject to annual renewal each June, at the option of the lender.

(iii) In December 2002, Canada Bread established a $215 million revolving debt facility with Maple Leaf to fund the acquisition of the Maple Leaf Bakery Group (note 13) and to provide liquidity for general corporate purposes. This revolving facility is extendable, at the Company's option, each year, subject to a final maturity date of December 27, 2005. At December 31, 2002, $198.5 million was outstanding under this facility. In January 2003, the Company repaid $100.0 million of this amount from the proceeds of an equity financing (note 15), and the credit facility was permanently reduced from $215 million to $109 million. Canada Bread has an option to repay up to $20 million of debt outstanding under this facility in common shares and this amount has been classified as a separate component of shareholders' equity.

(iv) In December 2002, Canada Bread issued a Promissory Note Facility to Maple Leaf in the amount of $75 million. This promissory note was repaid in January 2003 from drawings under its syndicated bank facility (described in (i) above).

(v) Subsidiaries of the Company have various other non-interest bearing loans which are repayable over various terms from 2002 to 2007. The amount outstanding at year end was $1.4 million.

In addition, the Company has undrawn demand overdraft facilities of $22.6 million (2001 – $10.2 million), which bear interest at short-term rates. At year end, there were no amounts outstanding under these facilities.

The Company's various facilities with Canadian chartered banks and other lenders, all of which are unsecured, are subject to certain financial covenants.

Required repayments of long-term debt for the next five years, adjusted for January 2003 transactions, are as follows:

2003	$ 107,954
2004	154
2005	183,444
2006	92
2007	26
	$ 291,670

6. DERIVATIVE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

In the ordinary course of business, the Company enters into derivative financial instruments with Maple Leaf as its counterparty to reduce underlying risks associated with foreign currency and interest rates.

(a) Foreign currency risk management

The Company uses foreign currency forward contracts and options to manage its currency exposure. The currency exposure relates primarily to U.S. dollar-denominated export sales and U.S. dollar-denominated purchases (wheat).

At December 31, 2002, the Company had no outstanding commitments in respect of foreign currency contracts (2001 – US$1.2 million).

(b) Interest rate risk management

The Company uses interest rate swaps to manage its exposure to interest rate fluctuations. At December 31, 2002, the Company had entered into interest rate swap contracts with Maple Leaf, having an aggregate notional amount of $60 million (2001 – $73 million) and maturity dates ranging from July 12, 2003 to July 12, 2005. The fixed rates payable by the Company under these contracts range from 3.10% to 4.40%.

Based on market values at December 31, 2002, the Company would have realized a loss of $0.8 million (2001 – loss of $0.3 million) to terminate the above-noted swap agreements.

The Company's blended average effective cost of borrowing for 2002 was 3.1% (2001 – 5.3%), after adjusting for the payments made under swap contracts in place in 2002.

(c) Fair value of financial assets and liabilities

Fair value of accounts receivable, accounts payable and accrued charges, due to (from) parent company, and the current portion of long-term debt approximate their carrying value due to their short-term nature.

The fair value of long-term debt approximates its carrying value as it bears interest at floating rates.

7. SHAREHOLDERS' EQUITY

Shareholders' equity consists of the following:

	2002	2001
Share capital (21,416,812 common shares)	$ 36,965	$ 36,965
Retained earnings	247,746	214,189
Equity component of long-term debt (note 5)	20,000	—
	$ 304,711	$ 251,154

The authorized share capital of the Company consists of an unlimited number of common shares.

8. OTHER INCOME

	2002	2001
Earnings from an associated company (note 13)	$ —	$ 1,414
Gain (loss) on sale of property and equipment	80	(102)
Other	205	—
	$ 285	$ 1,312

9. INTEREST EXPENSE

	2002	2001
Interest expense on long-term debt	$ 1,784	$ 1,003
Other net interest expense	1,982	321
	$ 3,766	$ 1,324

10. INCOME TAXES

Income tax expense varies from the amount that would be computed by applying the combined federal and provincial statutory income tax rate as a result of the following:

	2002	2001
Income tax expense according to combined statutory rate of 38.6% (2001 – 41.9%)	$ 23,283	$ 15,245
Increase (decrease) in income taxes resulting from:		
Manufacturing and processing credit	(2,579)	(2,246)
Non-taxable gains	(11)	(12)
Non-deductible goodwill amortization	—	1,075
Equity in earnings of associated company	—	(541)
Large Corporations Tax	177	200
Other	694	1,540
	$ 21,564	$ 15,261

Income tax expense attributable to net income consists of:

	Current	Future	Total
2002	$ 21,456	$ 108	$ 21,564
2001	15,399	(138)	15,261

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at December 31, are presented below:

	2002	2001
Future tax assets:		
Accrued assets	$ 2,734	$ 3,120
Other	3,419	2,000
	$ 6,153	$ 5,120
Future tax liabilities:		
Plant and equipment – differences in net book value and undepreciated capital cost	$ 32,409	$ 35,453
Taxes payable regarding accrued liabilities	—	1,760
Other	2,649	2,995
	$ 35,058	$ 40,208
Classified in the consolidated financial statements as:		
Future tax asset – current	$ 5,274	$ 3,094
Future tax liability – non-current	34,179	38,182
Net future tax liability	$ 28,905	$ 35,088

11. PENSIONS AND OTHER POST-RETIREMENT BENEFITS

Information about the Company's defined benefit plans as at December 31, in aggregate, is as follows:

	2002	2001
Accrued benefit obligation:		
Balance, beginning of year	$ 74,139	$ 70,480
Addition of Multi-Marques Plan (note 13)	18,317	—
Current service cost	2,176	1,781
Interest cost	6,229	4,983
Benefits paid	(7,155)	(5,528)
Actuarial losses	2,692	215
Employees' contributions	1,736	1,033
Plan amendments	131	1,175
Balance, end of year	$ 98,265	$ 74,139
Plan assets:		
Fair value, beginning of year	$ 78,197	$ 83,051
Addition of Multi-Marques Plan (note 13)	17,412	—
Actual return on plan assets	(5,649)	(730)
Employer contributions	746	371
Employees' contributions	1,736	1,033
Benefits paid	(7,155)	(5,528)
Asset transfer to Company defined contribution plan	(106)	—
Fair value, end of year	$ 85,181	$ 78,197
Funded status – plan surplus (deficit)	$ (13,084)	$ 4,058
Unamortized transitional amount	(9,782)	(10,560)
Unamortized investment loss	24,716	9,281
Unamortized prior service cost	1,021	1,098
Accrued benefit asset	$ 2,871	$ 3,877

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations are as follows as of December 31:

	2002	2001
Discount rate	6.50%	6.75%
Expected long-term rate of return on plan assets	7.50%	8.00%
Rate of compensation increase	4.00%	4.00%

The Company's net benefit plan expense (income) for the year ended December 31 is as follows:

	2002	2001
Current service cost – defined benefit plan	$ 2,176	$ 1,781
Interest cost	6,229	4,983
Expected return on plan assets	(7,461)	(6,509)
Amortization of transitional obligation	(778)	(778)
Actuarial gain recognized	137	—
Amortization of prior service cost	207	77
	$ 510	$ (446)

The expense during the year for the defined contribution plan was $3.6 million (2001 – $1.9 million).

12. RELATED PARTY TRANSACTIONS

(a) Maple Leaf provides the Company with certain management services, including treasury, taxation, internal audit, accounting and access to bulk purchasing programs. Pursuant to a Management and Affiliation Agreement entered into in August 1995, the Company paid a management and affiliation fee of $4.5 million (2001 – $3.4 million) to Maple Leaf, which approximates the cost of providing these services.

(b) The Company entered into a Management Services Agreement with Maple Leaf Foods USA Inc. ("Maple Leaf USA"), whereby Maple Leaf USA administered and supervised the management of the Company's U.S. operations commencing January 1996. The cost of providing this service was included in the management and affiliation fee. The independent members of the Board of Directors approved both agreements. Under this agreement, sales of product in the United States that is manufactured in the Canadian facilities are managed by Maple Leaf USA. The sales value and profitability related to these sales are recorded in the Company's financial statements. Sales under this agreement during the year were $81.1 million (2001 – $72.4 million), which represent 89% (2001 – 94%) of total export sales. The Company also sells products from time to time to other Maple Leaf divisions or subsidiaries in the normal course of business at market amounts.

(c) The Company received certain information system services from Maple Leaf for a cost of $2.3 million (2001 – $2.4 million).

13. ACQUISITIONS

In 2001, the Company acquired the remaining 75% interest in Multi-Marques Inc., to hold 100%, and in April 2002, the Company acquired the remaining 40% of the shares of Ben's Limited in Atlantic Canada, to hold 100%, for $12.9 million.

In July 2002, the Company acquired all of the outstanding shares of Olafson's Baking Company Inc. ("Olafson's") of Delta, British Columbia. The initial purchase price was $11.5 million. Additional consideration, up to a maximum of $11.0 million, may be payable depending on the attainment of certain financial targets, up until February 28, 2004. The results of operations of Olafson's have been included since the date of acquisition.

In October 2002, Maple Leaf acquired Grace Baking Company of San Francisco, California. In December 2002, Canada Bread purchased all of Maple Leaf's U.S. and U.K. bakery operations, including Grace Baking Company ("Maple Leaf Bakery Group"), for approximately $262.0 million, inclusive of debt assumption. These operations have not been reflected in the consolidated statement of earnings for 2002, but are included in the consolidated balance sheet as at December 31, 2002. The Company has not yet completed the determination of fair values of the individual assets and liabilities acquired, or its restructuring and integration plans for the operations acquired in the Olafson's and Maple Leaf Bakery Group acquisitions. Accordingly, the allocation of the purchase cost to the assets and liabilities acquired is preliminary and will change as restructuring plans are finalized. No restructuring costs have been accrued in the preliminary purchase accounting included in these financial statements, or accrued with respect to any restructuring of existing Canada Bread operations that may result from the integration plans, when finalized.

Details of net assets acquired are as follows:

	2002			2001
	Maple Leaf Bakery Group	Other	**Total**	Total
Cash	$ (992)	$ 737	$ **(255)**	$ 30,920
Net working capital	2,792	(2,561)	**231**	6,283
Other long-term assets	845	(1,715)	**(870)**	301
Property and equipment	96,929	(6,254)	**90,675**	104,191
Goodwill and other intangibles	170,319	48,779	**219,098**	55,891
Long-term debt and debt due to parent company	(19,290)	(14)	**(19,304)**	(15,125)
Future income taxes	982	5,308	**6,290**	(12,024)
Minority interest	—	4,405	**4,405**	(4,078)
Net assets of acquired companies	251,585	48,685	**300,270**	166,359
Less carrying value of 25% interest already owned in Multi-Marques Inc.	—	—	—	30,289
Total purchase cost	$ 251,585	$ 48,685	**$ 300,270**	$ 136,070

	2002	2001
Consideration:		
Cash	**$ 288,655**	$ 136,070
Accounts payable and accrued charges and due to parent company	**11,615**	—
	$ 300,270	$ 136,070

14. CONTINGENCIES AND COMMITMENTS

(a) The Company has been named as defendant in several legal actions and is subject to various risks and contingencies arising in the normal course of business. Management is of the opinion that the outcome of these uncertainties will not have a material adverse effect on the Company's consolidated financial position.

(b) In the normal course of business, the Company enters into sales commitments with various customers and purchase commitments with various suppliers. These commitments are for varying terms and can provide for fixed or variable prices. The Company believes these contracts serve to reduce risk, and it is not anticipated that losses will be incurred on these contracts.

(c) The Company has operating lease commitments in respect of property and equipment used in operations which require minimum annual payments as follows:

2003	**$ 11,820**
2004	**8,777**
2005	**5,077**
2006	**2,129**
2007	**1,220**
Thereafter	**40**
	$ 29,063

15. SUBSEQUENT EVENTS

On February 4, 2003, Canada Bread announced the planned closure of its London, Ontario fresh baking facility. The Company estimates that the costs of closure will result in a special charge to earnings in the first quarter of 2003 of approximately $5 million before tax (approximately $3 million after tax).

On January 28, 2003, Canada Bread issued 4 million shares to Maple Leaf from treasury at $26.50 per share in a private placement transaction. The $26.50 price represents a 24% premium to the average closing price for Canada Bread common shares for the 10 days preceding the announcement. Proceeds from the financing of $106 million have been used to pay down debt under the Company's existing credit facility with Maple Leaf. Prior to this transaction, Maple Leaf owned 68.3% of the outstanding common shares. After the issuance of shares, Maple Leaf now owns approximately 73.3% of the outstanding common shares of the Company.

DIRECTORS

Michael H. McCain
Chairman of the Board

John L. Bragg

Sarah A. Everett

Richard A. Lan

Charles J. Mayer

G. Wallace F. McCain

J. Scott McCain

Thomas P. Muir

John F. Petch

SENIOR MANAGEMENT

Richard A. Lan
President and Chief Executive Officer

Robert I. Busch
Senior Vice-President,
Human Resources and Corporate Affairs

Louise E. Cumming
Vice-President and General Manager,
Canada Bread Fresh Bakeries Central

Alison Farrell
Senior Vice-President, Canada Bread, and
General Manager, Olivieri Foods Limited

Dean Francis
Senior Vice-President and General Manager,
Canada Bread Fresh Bakeries West

William N. Gallie
Vice-President, Food Service

Douglas J. MacFarlane
President, Canada Bread Frozen Bakeries

C. Barry McLean
President, Canada Bread Fresh Bakeries

Réal Ménard
Senior Vice-President and General Manager,
Multi-Marques Inc.

Walter C. Miller
Vice-President, Manufacturing and Six Sigma

Carl T. Sparkes
Senior Vice-President and General Manager,
Canada Bread Fresh Bakeries Atlantic

Michael H. Vels
Chief Financial Officer

Steve Weinberger
Senior Vice-President, Finance

Don Wilcox
Vice-President, Technical Services

AUDITORS

KPMG LLP

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada

HEAD OFFICE

10 Four Seasons Place
Etobicoke, Ontario M9B 6H7
Tel: (416) 622-2040
www.canadabread.ca

STOCK EXCHANGE LISTING AND STOCK SYMBOL

The Company's common shares are listed on The Toronto Stock Exchange and trade under the symbol "CBY".

ANNUAL INFORMATION FORM

Copies of the Company's Annual Information Form, filed with regulatory authorities, are available from the Corporate Secretary, upon request.

ANNUAL MEETING

The Annual Meeting of the Shareholders of Canada Bread Company, Limited will be held at the Glenn Gould Studio, Canadian Broadcasting Centre, 250 Front Street West, Toronto, Ontario, on Thursday, May 1, 2003, at 10:00 a.m.

CANADA BREAD COMPANY, LIMITED

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